

City of Detroit

CITY COUNCIL

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TO: COUNCIL MEMBERS

FROM: Irvin Corley, Jr., Fiscal Analysis Director *ICJ*
Derrick Headd, Fiscal Staff Analyst *DH*

DATE: October 26, 2011

RE: Euclid Manufacturing LLC Public Act 328 of 1998 Abatement Request

The following is Fiscal's review of Euclid Manufacturing LLC's Public Act 328 abatement request.

This request involves a Public Act 328 abatement application for Euclid Manufacturing LLC, in order to facilitate a \$27 million capital investment for its stamping plant at 1500 E. Euclid. According to documents from the developer (attached) the facility at 1500 E. Euclid, was purchased from Bing Stamping in 2009, by L & W Group. Also according to the developer, Euclid Manufacturing, LLC is a sister company operating under the L & W Group of Companies.

This particular abatement request by Euclid Manufacturing LLC is for 12 years.

SUMMARY:

Savings for the Developer over 12 years to assist the project	\$2,664,043
Projected tax to City over 12 years	\$2,677,429
Difference	\$13,386
Employment Estimate	72 new jobs

Questions

Fiscal: How long has Euclid Manufacturing and 1500 Euclid been in business?

Euclid Manufacturing: *Euclid Manufacturing is a start-up business of two months, there is only one employee (the General Manager) and therefore no Human Rights employment reports. We expect to begin hiring for the facility in early 2012 with production slated to begin summer 2012.*

Fiscal: I see that Euclid is doing business on the former Bing Steel Properties. What is Euclid's connection with Bing Steel, is it a spin-off of the Bing Group? How did Euclid acquire the former Bing Steel Properties?

Euclid Manufacturing: *We purchased the property at 1500 E. Euclid from HRE Euclid, LLC, a Delaware limited liability company. Euclid Manufacturing has NO connection/relationship to Bing Steel. We purchased the property, incorporated 1500 E. Euclid (company) on May 25, 2010 and established Euclid Manufacturing LLC on August 3, 2011 (incorporated date).*

Fiscal: According to the letter from Euclid, Euclid Manufacturing's parent company, L&W Group, worked with the City to acquire the Bing Stamping in 2009. What role did the City play in assisting in the purchase of Bing Stamping?

Euclid Manufacturing: *Regarding the statement (from the letter): "The City of Detroit was included in the expansion of L&W with the purchase of Bing Stamping in 2009." The reference to Bing Stamping is referencing the property as it was commonly known. L&W, Euclid Manufacturing, nor 1500 E. Euclid (companies) purchased the former Bing Steel business - only the property commonly known as Bing Steel. Further, the sentence intends to convey that the City of Detroit (as a location) was included in L&W's expansion in the United States (as a location). The sentence has no conveyed meaning to the City of Detroit (government entity) nor its property thereof. The City of Detroit (government entity) played NO role in the purchase of the property located at 1500 E. Euclid Ave, Detroit.*

Recommendation

As we indicated, over the 12 year life of this abatement, this development is projected to bring the City \$13,386 in real property and income tax revenue over the amount of savings for the developer and the creation of 72 new jobs. Given this fact, we recommend approval of Euclid Manufacturing LLC's Public Act 328 abatement request.

Please contact us if we can be of any further assistance.

Attachment

cc: Council Divisions
Auditor General's Office
Robert Anderson, PDD
Marja Winters, PDD
Brian Watkins, PDD
Denise Gardner, Mayor's Office

DETROIT ECONOMIC GROWTH CORPORATION

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DETROIT
CITY CLERK

September 7, 2011

Honorable Janice M. Winfrey
Office of the City Clerk, Room 200
200 Coleman A. Young Municipal Center
Detroit, MI 48226

**Re: Euclid Manufacturing Company; Petition / Application for Exemption of
New Personal Property under Public Act 328 of 1998, as amended.**

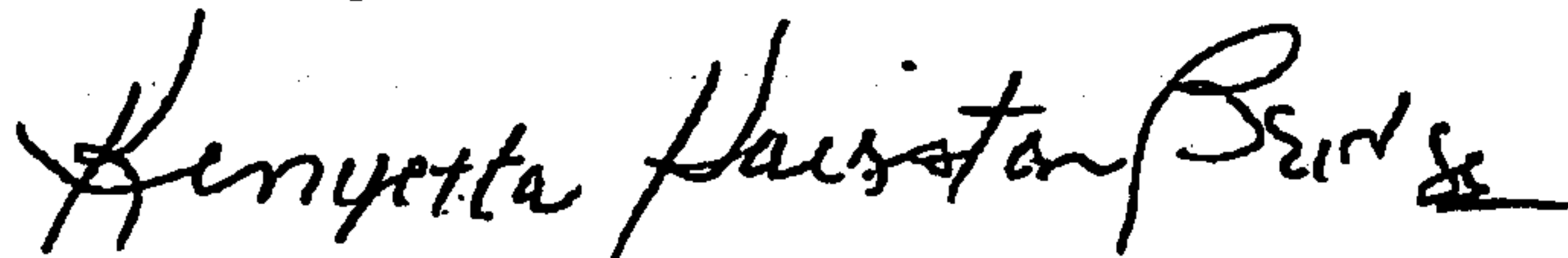
On behalf of Euclid Manufacturing, The Detroit Economic Growth Corporation is submitting three executed copies of the company's petition and application to apply for exemption of New Personal Property Taxes under Public Act 328 of 1998, as amended.

The enclosed application request exemption status of new personal property taxes to assist with the company's \$27 million capital investment project being undertaken at 1500 E. Euclid Street. This location will become the site of Euclid Manufacturing's new heaving stamping plant that provides metal stampings and welded assemblies to the automotive industry. More importantly, this project will lead to the creation of 72 new jobs over the next two years in the City of Detroit. With the availability of entry-level and skilled talent in Detroit, Euclid Manufacturing sees this as an optimal time to coordinate with the Detroit Workforce and Development Department to put unemployed individuals in the city back to work. In addition, Euclid Manufacturing's acquisition of 1500 E. Euclid will bring an under-utilized facility back to productive use, eliminating any substandard conditions that may exist.

The planned capital investment is slated to be completed in two phases over the next two years. The company seeks to begin the purchase and installation of new equipment in Mid-December of 2011. The second phase of equipment installation is planned for the 1st Quarter of 2012, allowing production to occur in June, 2012 and becoming fully operational by the 4th Quarter of 2013.

Should have additional questions or concerns, please do not hesitate to contact me directly.

Yours truly,



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August 24, 2011

Detroit City Council
Coleman A. Young Municipal Center
2 Woodward Ave, Suite 1340
Detroit, MI 48226

SEP 11 11 11 AM '11

--CITY CLERK--

RE: Request for approval of an Exemption of New Personal Property under Public Act 328 for Euclid Manufacturing Co., Inc., 1500 E. Euclid, Detroit, MI 48211. Our request is for a 12 year abatement. Euclid Manufacturing is also requesting \$750,000 in other funding for the required electrical service upgrades.

Honorable City Council:

Please accept this letter as a request for approval of an Exemption of New Personal Property under Public Act 328 for the property located at 1500 E. Euclid, Detroit, MI 48211 and described in attachment A. The building and land described in Attachment B is owned by 1500 E. Euclid, LLC. which is a sister company to Euclid Manufacturing Co., Inc. These two companies have a common owner. The lease agreement between the two companies stating that Euclid Manufacturing Co., Inc. is responsible for all real and personal property taxes is included as Attachment C.

Euclid Manufacturing is the newest addition to several sister companies operating under the L&W Group of companies. L&W Group has its corporate headquarters in Belleville MI. The company was started in 1973 with its first manufacturing facility in Belleville MI. The core business of L&W Group is providing stampings and welded assemblies to the automotive industry. Since starting in 1973, it has continued to expand and currently operates eight manufacturing facilities in Michigan and three outside of the State of Michigan. The City of Detroit was included in the expansion of L&W with the purchase of Bing Stamping in 2009. This facility is currently operated by L&W Group as Oakland Stamping. Oakland Stamping retained about 180 jobs in Detroit at the time of purchase and is expected to have 250 employees by the end of this year.

L&W Group has decided to increase its capacity in heavy stamping to meet projected customer demand. The heavy stamping facility will be operated under the name Euclid Manufacturing Co., Inc. This is a new operation and currently we have one employee, a General Manager, to organize the start up of this operation. The first phase of this operation will include seven large stamping presses and other related equipment as outlined in Attachment A. We would like to begin installation of equipment by December of 2011 and would be completed with the first phase by November 2013. Production would begin during the summer of 2012. Euclid manufacturing is expected to spend \$27 million on equipment in this first phase. At this point we do not expect this project to require major changes or renovation to the building. By the end of 2013 Euclid Manufacturing expects to hire 72 employees to operate this facility. Within five years we expect to employ 100 to 125 employees at this facility. The hourly wage rate is expected to range from \$12.00 per hour for unskilled labor to \$25.00 for skilled and technical labor.

Euclid Manufacturing has many options where it could locate this heavy stamping operation. Many buildings are available throughout the Midwest at extremely reduced rates which could be purchased or leased. The primary options for Euclid Manufacturing are:

- Option 1) Locate in the State of Ohio. The State of Ohio currently does not have personal property tax.
- Option 2) Locate in Michigan at one of many sites available outside of Metro Detroit at significantly lower property tax rates and other reduced expenses.
- Option 3) Locate in Detroit.

The added cost to Euclid Manufacturing to locate in Detroit vs. other Michigan cities just for property taxes is \$2.6 million over 12 years (no tax abatement) and \$4.7 million for other Detroit specific increased expenses. See Attachment D for detail regarding the additional cost to locate in Detroit.

The request for exemption from property taxes is being made for several economic and business reasons. This project is very capital intensive, taking several months to install large stamping presses. After the presses are installed it will take several months to get the presses and other equipment to run efficiently and at capacities that will make this operation profitable. The time frame involved for installation of all equipment will take at least 18 to 24 months. During this time the revenue generated does not cover the operating costs. These significant costs would be incurred wherever we locate. However, there are added costs such as the \$1.9 million to upgrade the power to the facility, security to protect from theft and vandalism, higher wages, and the difficulty of finding skilled workers that make this site a disadvantage to other Michigan locations. The industrial personal property tax rate for Detroit is approximately two times higher on average than the other locations which L&W Group operates in Michigan. In order to make this a viable long term business in Detroit we need assistance to reduce these expenses to be in line with other potential locations.

Euclid Manufacturing funding for this expansion will be provided through current lines of credit with Comerica Bank. See Attachment E which indicates adequate availability of funds for this project.

Euclid Manufacturing is requesting 12 years of exemption from personal property taxes under P.A. 328. In addition we are asking for \$750,000 in other funding, such as a grant, to assist in the estimated cost of \$1.9 million to provide the required electrical service to the Euclid Manufacturing facility. This electric equipment requirement from DTE was not anticipated by the company. The City of Detroit, Wayne County and the Michigan Economic Development Corporation have been contacted to request their assistance for grants or funds to cover this expense. At this point specific funding amounts from these entities has not been identified to assist in this added cost of doing business in Detroit.

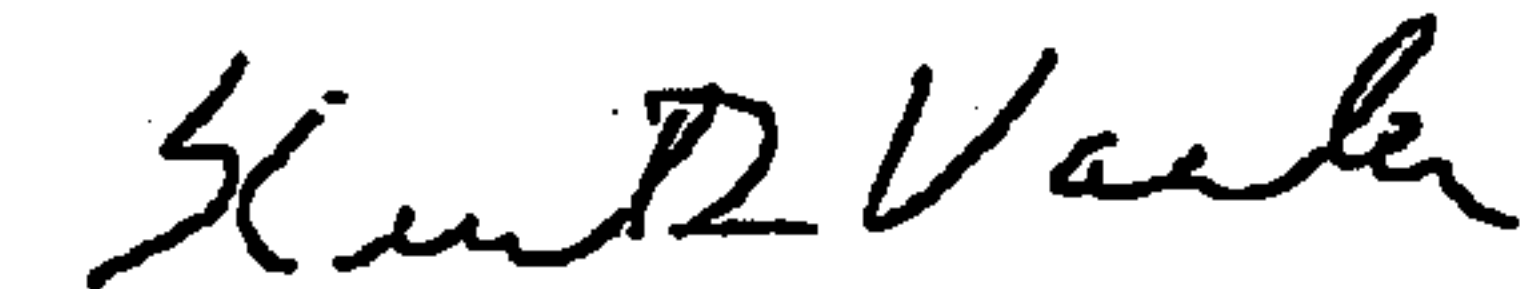
There are many economic advantages for the City of Detroit that would result from this project if we proceed. In the short term there would be many contractors involved in the various projects. Most of these contractors would be Michigan-based businesses. This will generate more revenue for local businesses and potentially more city income taxes. A vacant building will once again be used and occupied in the city of Detroit with the certainty that the real property taxes on the building will continue to be paid. The City of Detroit will begin to collect additional city income tax and when we reach our full staff of 72 employees we estimate that at least \$50,000 annually will be paid in city income taxes to Detroit.

L&W Group's initial \$27 million investment in the Euclid Manufacturing facility and continued operation will generate new tax revenues for the City of Detroit and the State of Michigan. This will generate millions of dollars in spin-off spending in Detroit and in Michigan. This project will create approximately 72 new full-time advanced manufacturing jobs with wages ranging from \$30,000 to more than \$75,000 annually. A comprehensive benefits plan will be available to all employees. An additional 185 new indirect jobs in industries such as transportation, materials management and service will be created based on information provided by the Michigan Economic Development Corporation (Attachment F). If we look at the 250 jobs L&W Group has brought to Detroit with Oakland Stamping and the future projections of 100 new jobs for Euclid Manufacturing, the total direct jobs is 450 and the total indirect jobs is 1,593. L&W Group believes these numbers are very conservative when looking at the impact to the State of Michigan since both of these Detroit locations are stamping facilities that buy and sell a significant amount of their product in Michigan. There are at least 100 additional direct jobs within the L&W Group alone at other Michigan locations directly related to the product that is and will be produced at these locations. Euclid Manufacturing will work with Michigan Works and other organizations to focus on hiring from the Detroit work force. We have included our hiring plan for this operation (Attachment G).

In addition to providing the opportunity for high-quality, good-paying jobs for Southeast Michigan workers, the Euclid Manufacturing facility will benefit the Michigan academic and business communities through applied research and development programs based on new technologies including high-precision tools, processes and materials. Through partnership's with Detroit's Wayne State University, Focus: HOPE and automotive suppliers, L&W Group, through its investments in Euclid Manufacturing, is committed to serving its customers within the state and region, and will continue to look for opportunities to increase new technologies and design methodologies developed in the Motor City.

Euclid Manufacturing Co., Inc. respectfully is requesting that the City of Detroit grant this exemption for taxes on new personal property. The L&W Group of companies has made a major decision to focus on growth and expansion in Michigan. In 2009 it expanded its presence in Michigan and in Detroit under the name of Oakland Stamping. L&W Group did not request assistance from the City of Detroit in this first step into the City of Detroit. L&W Group is now looking at expanding its business presence in Detroit and is now asking for assistance to reduce the added cost of doing business in Detroit vs. other Michigan or Ohio locations. This new business will have a long term positive impact on Detroit. The ongoing spending for product, services, and wages will be multiplied several times within Detroit and the State of Michigan. Civic Economics, an economic consulting firm, has estimated that \$68 of every \$100 spent at a locally owned business stays in the local economy in the form of wages, taxes, community donations and spending on local business services and supplies. Euclid Manufacturing is requesting your support to equalize the cost as compared to other cities within the State of Michigan.

Euclid Manufacturing



Kurt Vaaler

L&W Group

Vice President Financial Planning